

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Marquette Board of Light & Power	County Marquette
Fiscal Year End June 30, 2006	Opinion Date October 7, 2006	Date Audit Report Submitted to State December 22, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Makela, Toutant, Hill & Nardi, P.C.		Telephone Number (906) 228-3600		
Street Address 201 West Bluff Street		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name Paul B. Nardi		License Number 1101020870

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER
Marquette, Michigan

June 30, 2006

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2006

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Management Discussion and Analysis

This annual report consists of a series of financial statements, notes to the financial statements, and other financial information. Following is a brief description of each statement and the notes.

The balance sheet presents the financial position of the Marquette Board of Light and Power (MBLP) on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations for the years ended June 30, 2006, and June 30, 2005.

The statement of revenues, expenses, and changes in net assets provides the reader with the revenues and expenses by major category for the current fiscal year and the prior fiscal year giving the opportunity for a direct comparison of these items for the past two fiscal years. Increases and decreases in the individual line items on this statement can be analyzed and evaluated. This statement also indicates the change in net assets.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the MBLP's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and any subsequent events.

After the financial statements and notes to financial statements, the MBLP presents other financial information. This information includes a schedule of operating expenses, schedule of utility plant in service, comparative operating statistics, and comparative financial and statistical information.

The following table summarizes the financial condition and operations for the MBLP for 2006 and 2005:

	June 30, 2006	June 30, 2005	Dollar Change	Percent Change
Current and other assets	\$ 15,695,488	\$ 17,817,762	\$ (2,122,274)	-11.91%
Restricted assets	5,051,703	6,218,696	(1,166,993)	-18.77%
Capital assets	39,020,456	39,788,406	(767,950)	-1.93%
Total assets	59,767,647	63,824,864	(4,057,217)	-6.36%
Long-term debt outstanding	7,018,875	9,582,190	(2,563,315)	-26.75%
Other liabilities	5,888,254	8,253,648	(2,365,394)	-28.66%
Total liabilities	12,907,129	17,835,838	(4,928,709)	-27.63%
Net assets:				
Invested in plant, net of related debt	33,571,631	31,664,794	1,906,837	6.02%
Restricted	2,210,715	2,210,634	81	0.00%
Unrestricted	11,078,172	12,113,598	(1,035,426)	-8.55%
Total net assets	\$ 46,860,518	\$ 45,989,026	\$ 871,492	1.89%

Management Discussion and Analysis--Continued

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Electric revenues	\$ 22,284,699	\$ 21,042,471	\$ 1,242,228	5.90%
Sales to WE Energies	704,187	2,891,898	(2,187,711)	-75.65%
Interest earnings	726,470	638,058	88,412	13.86%
Other	629,802	678,640	(48,838)	-7.20%
Total revenues	<u>24,345,158</u>	<u>25,251,067</u>	<u>(905,909)</u>	<u>-3.59%</u>
Expenses:				
Electric expenses	23,275,417	24,240,626	(965,209)	-3.98%
Interest and debt expense	336,119	468,451	(132,332)	-28.25%
Other	37,515	33,714	3,801	11.27%
Total expenses	<u>23,649,051</u>	<u>24,742,791</u>	<u>(1,093,740)</u>	<u>-4.42%</u>
Net income	<u>696,107</u>	<u>508,276</u>	<u>187,831</u>	<u>36.95%</u>
Capital contributions from customers	<u>175,385</u>	<u>900,266</u>	<u>(724,881)</u>	<u>-80.52%</u>
Increase in net assets	<u>\$ 871,492</u>	<u>\$ 1,408,542</u>	<u>\$ (537,050)</u>	<u>-38.13%</u>

Current and other assets have decreased by 11.91 percent. This is primarily due to a decrease in coal inventory due to the timing of coal receipts. Restricted assets decreased by 18.77 percent. This is due to a smaller requirement in the Bond and Interest Fund due to a smaller bond and interest payment on July 1, 2006. Long-term debt decreased by 26.75 percent. This is due to that annual bond and interest payment that was made on July 1, 2005. All long-term debt currently outstanding will be paid in full by July 1, 2008. Other liabilities decreased by 28.66 percent. This is due to the timing of coal receipts and payments. Also, short-term bond principal decreased significantly from the prior fiscal year.

Electric revenues and electric expenses have risen in part due to the cost of coal and purchased power. These higher costs are reflected in customer revenues through the utility's fuel adjustment clause. Sales to WE Energies have decreased 75.65 percent due to the expiration of a capacity and energy agreement as of June 30, 2005 and lower energy sales.

Interest and debt expense has decreased by 28.25 percent due to the declining bond principal outstanding.

Capital contributions from customers have decreased 80.52 percent due to the absence of large capital contributions projects as compared to the prior fiscal year.

Net assets have increased approximately \$871,000 during the fiscal year ended June 30, 2006, indicating that the MBLP's financial position has improved as a result of the year's operations.

There were no significant variations between original and final budgets. Notable variations from budgeted amounts to actual amounts were: lower than budgeted coal costs due to not operating unit #2 during January and February of 2006 due to mild weather; greater than budgeted sales to WE Energies; and decreased operation and maintenance expenses for the combustion turbine due to less than budgeted operation.



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Marquette, Michigan 49855

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REPORT OF INDEPENDENT AUDITORS

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

We have audited the accompanying financial statements of the Marquette Board of Light and Power (Board) as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Marquette Board of Light & Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Board of Light and Power as of June 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in Management's Discussion and Analysis on pages one and two is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2006



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Our goal is to help you meet yours!

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BALANCE SHEETS

MARQUETTE BOARD OF LIGHT AND POWER

	June 30	
	2006	2005
ASSETS		
UTILITY PLANT		
Electric utility plant in service--Notes A and C	\$ 115,317,907	\$ 113,361,354
Less allowances for depreciation and amortization	<u>76,297,451</u>	<u>73,572,948</u>
NET UTILITY PLANT	39,020,456	39,788,406
RESTRICTED ASSETS--Notes B and D:		
Bond and interest redemption fund	2,840,988	4,008,062
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow fund	<u>12,716</u>	<u>12,634</u>
TOTAL RESTRICTED ASSETS	5,051,704	6,218,696
CURRENT ASSETS		
Operation and maintenance fund--Note A:		
Cash and cash equivalents	528,673	623,875
Investments	<u>2,716,333</u>	<u>2,855,216</u>
	3,245,006	3,479,091
Accounts receivable, less allowance for losses in collection (2006--\$161,884; 2005--\$159,514)	1,247,951	1,339,446
Inventories		
Coal	2,218,325	3,447,172
Diesel fuel	384,243	448,364
Materials and supplies	408,807	370,838
Prepaid expenses	<u>64,399</u>	<u>67,298</u>
TOTAL CURRENT ASSETS	7,568,731	9,152,209
INTERNALLY DESIGNATED ASSETS		
Customer electric rate stabilization fund	1,788,447	1,763,184
Turbine and major generating equipment overhaul fund	997,132	856,923
Replacement-risk retention fund	2,521,381	2,433,503
Improvement fund	<u>733,311</u>	<u>1,737,991</u>
TOTAL INTERNALLY DESIGNATED ASSETS	6,040,271	6,791,601
OTHER ASSETS		
Investment in UPPPA	2,037,550	1,801,085
Unamortized bond issue expenses	<u>48,936</u>	<u>72,867</u>
TOTAL OTHER ASSETS	2,086,486	1,873,952
TOTAL ASSETS	<u>\$ 59,767,648</u>	<u>\$ 63,824,864</u>

	June 30	
	2006	2005
NET ASSETS		
Invested in utility plant, net of related debt	\$ 33,571,631	\$ 31,664,794
Restricted	2,210,716	2,210,634
Unrestricted	11,078,172	12,113,598
TOTAL NET ASSETS	46,860,519	45,989,026
LONG-TERM LIABILITIES		
Revenue bonds less current maturities--Notes E and F:	5,448,825	8,123,612
Reserve for turbine and major generating equipment overhaul	997,132	856,923
Post-closure costs--landfill	572,918	601,655
TOTAL LONG-TERM LIABILITIES	7,018,875	9,582,190
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities on revenue bonds	2,695,000	3,805,000
Revenue bond accrued interest payable	145,987	203,062
TOTAL CURRENT LIABILITIES--RESTRICTED ASSETS	2,840,987	4,008,062
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	730,892	1,954,588
Employee compensation and related liabilities	116,448	138,763
Accrued sick and vacation pay	814,390	793,157
Customer deposits, including accrued interest (2006--\$21,000; 2005--\$18,683)	1,345,537	1,319,078
Post-closure costs--landfill	40,000	40,000
TOTAL CURRENT LIABILITIES	3,047,267	4,245,586
TOTAL LIABILITIES AND NET ASSETS	\$ 59,767,648	\$ 63,824,864

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2006	2005
OPERATING REVENUES		
Electricity sales:		
Urban	\$ 12,906,047	\$ 12,214,724
Rural	7,487,151	7,019,772
Sales to Alger-Delta Co-op	854,500	805,367
Sales to Wisconsin Electric Power Company	704,187	2,891,898
Street lighting	331,017	316,408
Other municipal departments	705,985	686,200
Rent and other	599,763	646,651
	<u>23,588,650</u>	<u>24,581,020</u>
OPERATING EXPENSES		
Production	11,363,952	12,140,131
Purchased power	1,488,238	2,435,030
Distribution and transmission	1,016,294	946,114
Customer accounting	491,914	459,964
Administrative and general	4,359,864	3,977,282
Provisions for depreciation and amortization of landfill site, excluding amounts charged to other operating expenses (2006--\$117,050; 2005--\$112,243)	3,094,271	3,079,092
Charges from municipality in lieu of property taxes--City of Marquette	1,460,884	1,203,013
	<u>23,275,417</u>	<u>24,240,626</u>
OPERATING INCOME	<u>313,233</u>	<u>340,394</u>
OTHER INCOME (DEDUCTIONS)		
Investment income	726,470	638,058
Interest on refunding bonds	(291,975)	(406,125)
Delayed payment fees	30,038	31,989
Amortization of bond issuance expense	(44,144)	(62,326)
Other interest expense	(37,515)	(33,714)
TOTAL OTHER INCOME (DEDUCTIONS)	<u>382,874</u>	<u>167,882</u>
NET INCOME	<u>696,107</u>	<u>508,276</u>
CAPITAL CONTRIBUTIONS FROM CUSTOMERS	<u>175,386</u>	<u>900,266</u>
CHANGE IN NET ASSETS	<u>871,493</u>	<u>1,408,542</u>
NET ASSETS AT THE BEGINNING OF YEAR	<u>45,989,026</u>	<u>44,580,484</u>
NET ASSETS AT THE END OF YEAR	<u>\$ 46,860,519</u>	<u>\$ 45,989,026</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2006	2005
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Cash received from customers	\$ 23,675,127	\$ 24,277,554
Cash received for interest	877,973	573,291
Cash paid to suppliers and employees	(19,895,504)	(23,508,793)
Cash paid for interest	(349,051)	(457,994)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,308,545	884,058
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Capital expenditures, net	(2,466,386)	(2,206,391)
Contributions from customers	175,386	900,266
Proceeds from maturities and sales of investment securities	4,922,891	3,960,332
Other	23,015	11,431
Proceeds from sale of equipment		2,156
Purchases of investment securities	(3,392,538)	(2,850,247)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(737,632)	(182,453)
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(3,805,000)	(3,705,000)
NET CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	(3,805,000)	(3,705,000)
NET INCREASE IN OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS	(234,087)	(3,003,395)
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT BEGINNING OF YEAR	3,479,093	6,482,488
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT END OF YEAR	\$ 3,245,006	\$ 3,479,093
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 696,107	\$ 508,276
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,211,321	3,191,335
Bad debt expense	24,000	36,012
Amortization of bond issuance expense and bond discounts	44,143	62,327
Unrealized (gain) loss on investments		
(Increase) decrease in:		
Accounts receivable	67,495	(342,048)
Inventory	1,254,999	(2,668,628)
Prepaid expenses	2,899	(563)
Accrued interest receivable	151,503	(64,767)
Increase (decrease) in:		
Landfill site post-closure care cost liability	(28,737)	(22,539)
Accounts payable	(1,223,696)	609,193
Employee compensation and related liabilities	(22,315)	14,634
Accrued sick and vacation pay	21,233	(40,452)
Customer deposits, including accrued interest	26,459	40,307
Reserve for turbine overhaul and generating equipment	140,209	(387,159)
Revenue bond interest payable	(57,075)	(51,870)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 4,308,545	\$ 884,058

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2006

NOTE A--STATEMENT OF ACCOUNTING POLICIES

The accounting policies followed by the Marquette Board of Light and Power (Board) and the methods of applying those policies, which materially affect the determination of the financial position, other changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Marquette Board of Light and Power, Marquette, Michigan, was formed by a revision of the charter of the City of Marquette, Michigan, in 1964 to operate the city's electric utility. The Board consists of five members, elected by the voters of the City of Marquette, each serving three-year terms. The Board appoints the director. The Marquette Board of Light and Power is owned by the City of Marquette, Michigan. The Board provides electrical service to the residents of the City of Marquette, as well as non-residents within an area of approximately 140 square miles outside the city limits. The Board, subject to confirmation by the Marquette City Commission, sets rates for light and power. The accompanying financial statements include only the Marquette Board of Light and Power and no other governmental agencies or departments of the City of Marquette.

The Marquette Board of Light and Power is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting:

The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into the three components of invested in capital assets: net of related debt, restricted, and unrestricted. These classifications are defined as follows:

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Utility Plant: Utility plant acquired prior to 1940 is stated on the basis of values determined by independent appraisers as of that date. Subsequent additions are stated at cost. Costs of the utility plant related to providing service to additional customers are capitalized and, in some cases, a related fee is charged to customers and recorded as contributions from customers.

Additions, improvements, and other capital outlay that significantly extends the useful life of an asset are capitalized. Capitalization thresholds vary by asset category and by type of expenditure.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Hydro license	30 years
Structures and improvements	33-50 years
Equipment	5-33 years

Gains or losses on normal disposals are not included in net income, but are recorded as adjustments of the allowances for depreciation. Gains or losses on extraordinary retirements or unusual disposals are recorded in net income in their year of occurrence.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Inventories: Inventories of fuel, material, and supplies are valued at cost (not in excess of market) determined on the moving-average method.

Accrued Sick Leave: The Board has a policy of allowing employees to accumulate sick leave benefits. At retirement, certain terminations of employment, or employees with ten years or more of service are paid for one-half of the accumulated days at their current rate of pay. Such benefits are recorded when earned.

Unbilled Revenue: The Board recognizes revenues on the basis of monthly cycle billings to customers. Accordingly, unbilled revenue from billing date to June 30 has not been recorded. The cost of service rendered is recognized when incurred.

Cash and Cash Equivalents: The Board considers all demand deposits, time deposits, and highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents are reported at carrying amount that approximates fair value.

Investments: The Board reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices. Exceptions to this policy include the Board's investments in time deposits which are carried at cost and the investment in Upper Peninsula Public Power Agency which is carried at cost because there is no quoted market value for the investment.

State statutes authorize the Board to invest in bonds and other direct obligations of the U.S. government or its agencies; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Board is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements; bankers' acceptances of U.S. banks; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments outlined above.

Statement of Cash Flows: The Board prepares the statement of cash flows to present the change in the operation and maintenance fund cash and equivalents and investment account balances.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE B--RESTRICTED AND DESIGNATED ASSETS

Rates: The Board will charge and collect rates, with the approval of the city commission, necessary to provide net revenues, as defined in the bond agreement, sufficient to cover annual debt service not less than 1.25 times.

Operation and Maintenance Fund: Transfers will be made from the receiving fund in amounts necessary to pay the next month's estimated operating expenses. This fund also includes assets reserved for customer deposits and short-term investments for payment of coal invoices.

Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Board's management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The major funds created by provisions of the ordinances authorizing the issuance of revenue bonds and by Board designation are as follows:

Bond and Interest Redemption Fund: Transfers will be made from the receiving fund in amounts sufficient to pay bond and interest maturities.

Bond Reserve Fund: Transfers will be made to the bond reserve fund in an amount equal to 10 percent of the 2001A revenue bonds original issuance amount.

Replacement-Risk Retention Fund: Transfers will be made to the fund, as the Board determines necessary, to finance major distribution repairs and replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to payments in lieu of taxes.

Improvement Fund: Transfers will be made to the improvement fund, as the Board deems necessary for improvements, enlargements, and extensions of the system. Transfers to this fund are subordinate to transfers to the replacement-risk retention fund.

Pinehill Landfill Escrow Fund: The Board has established an escrow fund (based on tonnage) for the future closure of the landfill due to a state regulation.

Turbine and Major Generating Equipment Overhaul Fund: The Board has established a turbine and major generating equipment overhaul fund for future turbine and major generating equipment overhauls.

Customer Electric Rate Stabilization Reserve: This fund consists of funds reserved for plant expansion, retirement of debt, reduction or elimination of adverse fuel adjustments, and/or to avert a rate increase.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE C--UTILITY PLANT

A summary of utility plant is as follows:

	June 30	
	2006	2005
Land and land rights	\$ 1,003,073	\$ 999,971
Landfill site	120,000	120,000
Hydro license	427,381	406,213
Structures and improvements	10,618,461	10,596,413
Equipment	103,148,992	101,238,757
	<u>115,317,907</u>	<u>113,361,354</u>
Accumulated depreciation	<u>(76,297,451)</u>	<u>(73,572,948)</u>
	<u>\$ 39,020,456</u>	<u>\$ 39,788,406</u>

A summary of utility plant activity for the year ended June 30, 2006, is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Hydraulic production	\$ 5,932,556	\$ 222,858		\$ 6,155,414
Internal combustion	1,435,006	17,963		1,452,969
Turbine combustion	4,491,083			4,491,083
Steam production	66,209,092	626,216	\$ (226,364)	66,608,944
Transmission	2,110,666	126,073		2,236,739
General plant and equipment	4,000,948	418,400	(174,967)	4,244,381
Distribution	29,182,003	1,054,876	(108,502)	30,128,377
	<u>113,361,354</u>	<u>2,466,386</u>	<u>(509,833)</u>	<u>115,317,907</u>
Accumulated depreciation	<u>(73,572,948)</u>	<u>(3,211,321)</u>	<u>486,818</u>	<u>(76,297,451)</u>
	<u>\$ 39,788,406</u>	<u>\$ (744,935)</u>	<u>\$ (23,015)</u>	<u>\$ 39,020,456</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS

The composition of restricted assets, internally designated assets, and operation and maintenance fund assets reported on the balance sheet at June 30, 2006, are as follows:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
RESTRICTED ASSETS				
Bond and interest redemption fund	\$ 2,840,988			\$ 2,840,988
Bond reserve fund		\$ 2,198,000		2,198,000
Pinehill escrow fund	12,716			12,716
	<u>2,853,704</u>	<u>2,198,000</u>	<u>\$ 0</u>	<u>5,051,704</u>
INTERNALLY DESIGNATED ASSETS				
Customer electric rate stabilization fund	778,757	982,991	26,699	1,788,447
Turbine overhaul fund	4,797	986,378	5,957	997,132
Improvement fund	60,946	633,621	38,744	733,311
Replacement-risk retention fund		2,429,789	91,592	2,521,381
	<u>844,500</u>	<u>5,032,779</u>	<u>162,992</u>	<u>6,040,271</u>
OPERATION AND MAINTENANCE FUND	<u>528,673</u>	<u>2,637,699</u>	<u>78,634</u>	<u>3,245,006</u>
TOTAL	<u><u>\$ 4,226,877</u></u>	<u><u>\$ 9,868,478</u></u>	<u><u>\$ 241,626</u></u>	<u><u>\$ 14,336,981</u></u>

Cash and cash equivalents can also be summarized into the following categories:

Cash on hand	\$ 1,701
Cash in demand accounts	182,018
Cash in savings accounts	1,189,454
Other	<u>2,853,704</u>
	<u><u>\$ 4,226,877</u></u>

Custodial Credit Risk

At year-end, the carrying amount of the Board's deposits with financial institutions, including time deposits that are classified as investments, approximated \$11,900,000. Approximately \$939,000 of the Board's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$10,961,000 was uninsured and uncollateralized. Therefore, the Board is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the Board subject to minimal credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS--Continued

Investments

At year-end, the fair value of the Board's investments and scheduled maturities of those investments are as follows:

	Fair Value	Maturities	
		Less than 1 year	One to five years
United States Treasury Note, 2.375%	\$ 2,198,000	\$ 2,198,000	
Time deposits	<u>7,670,478</u>	<u>7,096,362</u>	<u>\$ 574,114</u>
TOTAL INVESTMENTS	<u>\$ 9,868,478</u>	<u>\$ 9,294,362</u>	<u>\$ 574,114</u>

Investment Interest Rate Risk

The Board has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments at June 30, 2006, are provided in the previous schedule.

During the year ended June 30, 2005, the Board joined with six other municipal electric utilities and formed the Upper Peninsula Public Power Agency (Agency) a joint action agency created under Public Act 448 of the State of Michigan. The primary purpose of the Agency is to facilitate an ownership interest in American Transmission Company, LLC, for its members, with any investment revenues countering likely increases in wholesale transmission expenses. The Board transferred transmission assets with a net book value of \$746,390 and approximately \$902,000 in cash to the Agency in return for an approximate 68 percent ownership interest in the Agency. During the years ended June 30, 2006 and 2005, the Board made additional investments in the Agency in the amounts of \$236,465 and \$152,972, respectively. This investment is carried at cost.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE E--LONG-TERM DEBT

Details of outstanding long-term revenue bonds as of June 30, 2006, are as follows:

Issue of October 11, 2001, 2.625 to 3.80%, net of \$41,175
discount, payable in variable annual installments through 2009 \$ 5,448,825

Maximum annual maturities through 2009 total \$2,790,000. Bonds maturing in the years 2006 through 2009 are subject to redemption prior to maturity at the option of the city, in such order as the city may determine, and by lot within a single maturity, on any interest payment date on or after July 1, 2006. Bonds called for redemption shall be redeemed at par and accrued interest to the date fixed for redemption.

The annual cash requirements to amortize all recorded debt outstanding, including interest payments, are as follows for each of the fiscal years ended:

June 30	July 1		January 1	Total
	Interest	Principal	Interest	
2007	145,988	2,695,000	101,520	2,942,508
2008	101,520	2,790,000	51,300	2,942,820
2009	51,300	2,700,000		2,751,300
	<u>\$ 298,808</u>	<u>\$ 8,185,000</u>	<u>\$ 152,820</u>	<u>\$ 8,636,628</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2006:

	June 30, 2005	Additions	Payments or Amortization	June 30, 2006
Revenue bonds payable	\$ 8,185,000		\$(2,695,000)	\$ 5,490,000
Less: unamortized net discount	(61,388)		20,213	(41,175)
TOTAL BONDS PAYABLE	<u>\$ 8,123,612</u>	<u>\$ 0</u>	<u>\$(2,674,787)</u>	<u>\$ 5,448,825</u>

Interest payments relating to the 2001A revenue bonds totaled \$349,050 and \$457,996 for the years ended June 30, 2006 and 2005, respectively. Other interest payments totaled \$43,096 and \$39,966 for the years ended June 30, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE F--FUNDS AVAILABLE FOR DEBT SERVICE

Income available for debt service consists of the following:

	Year Ended June 30	
	2006	2005
Operating income	\$ 313,233	\$ 340,394
Charges from municipality in lieu of property taxes	1,460,884	1,203,013
Provision for depreciation and amortization	3,211,321	3,191,335
Investment income	726,470	638,058
Delayed payment fee	30,038	31,989
	<u>5,741,946</u>	<u>5,404,789</u>
AMOUNT AVAILABLE FOR DEBT SERVICE	<u>\$ 5,741,946</u>	<u>\$ 5,404,789</u>

Debt service requirements consist of the following:

	Year Ended June 30	
	2006	2005
Principal--2001A	\$ 2,695,000	\$ 3,805,000
Interest expense--2001A	291,975	406,125
	<u>2,986,975</u>	<u>4,211,125</u>
TOTAL DEBT SERVICE	<u>\$ 2,986,975</u>	<u>\$ 4,211,125</u>
Debt service ratio	<u>1.92</u>	<u>1.28</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE G--NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Board's net assets as of June 30:

	2006	2005
Invested in utility plant, net of related debt:		
Net utility plant	\$ 39,020,456	\$ 39,788,406
Funds restricted for debt service	2,840,987	4,008,062
Revenue bonds payable	(8,143,825)	(11,928,612)
Accrued interest on long-term debt	(145,987)	(203,062)
INVESTED IN UTILITY PLANT, NET OF DEBT	33,571,631	31,664,794
Restricted:		
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow	12,716	12,634
TOTAL RESTRICTED	2,210,716	2,210,634
Unrestricted:		
Contributions from customers	2,975,066	2,799,681
Unrestricted	8,103,106	9,313,917
TOTAL UNRESTRICTED	11,078,172	12,113,598
TOTAL NET ASSETS	\$ 46,860,519	\$ 45,989,026

NOTE H--DEFINED BENEFIT PENSION PLAN

The Board participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries in accordance with state statute and Board ordinance. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the entire MERS system. The report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

All employees' benefits, except for the executive director, vest after ten years of service. Current Board bargaining and nonbargaining active employees covered by the defined benefit plan who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of a member's five year average compensation, times the number of years service. Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable for life, in an amount equal to the sum of 1.2 percent times the first

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

\$4,200 of a member's five-year final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. Members of the management group who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of the member's five-year final average compensation times the number of years of service credit. All Board bargaining unit employees hired on or after July 1, 1999, are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.0 percent of the five-year final average compensation times the number of years of service (B-2). (MERS) provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and at age 55 with 25 years of service without reduced benefits and age 50 with 25 years of service at a reduced benefit.

Current, active Board bargaining, non-bargaining, and management employees covered by the defined benefit plan hired prior to July 1, 1999, are entitled to the annual cost of living benefit upon retirement (E-2).

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by state statute and Board ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100 percent joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85 percent of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Plan members are required to contribute percentages ranging from 4.7 percent to 4.8 percent of their annual salary to the plan. The Board is required to contribute an actuarially-determined rate. The contribution requirements of plan members and the Board are established and may be amended by the Board and the MERS Board of Trustees, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

For 2006, the Board's annual pension cost was \$441,780. The Board's actual contributions for 2006 were \$406,624. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0 percent to 9.4 percent per year, and (c) 4.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of the plan assets was determined using techniques that smooth effects of short-term volatility in the market value of investments.

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	277,151	100%	0
2003	276,564	100%	0
2004	271,728	99%	0
2005	352,968	99%	0
2006	441,780	92%	0

NOTE I--DEFINED CONTRIBUTION PENSION PLAN

The Board adopted a defined contribution pension plan effective August 1, 1998, covering all salaried employees hired on or after July 1, 1998. The Board is required to contribute 13.0 percent and covered employees are each required to contribute 5.0 percent of annual covered payroll. Employees may voluntarily contribute up to an additional 10.0 percent of their annual salary up to the maximum allowed under the Internal Revenue Code. For the year ended June 30, 2006, contributions by the Board totaled \$49,966 and contributions by the employees totaled \$23,862. For the year ended June 30, 2005, contributions by the Board totaled \$13,834, and contributions by the employees totaled \$13,834.

NOTE J--DEFERRED COMPENSATION PLAN

The Board offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. One plan is administered by the International City Managers Association (ICMA) and the other plan by the Nationwide Retirement Solutions Corporation. The plans, available to all Board employees, permit an employee to defer a portion of current earnings until termination, retirement, death, or unforeseeable emergency.

The Board does not make any contributions to the plans; however, voluntary contributions made by qualified participants to the plans for the years ended June 30, 2006 and 2005, totaled \$215,782 and \$198,155, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE K--OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the Board provides post-employment health care benefits to eligible retirees and their dependents. The benefits are provided in accordance with a collective bargaining agreement and Board policy. Retirees must be eligible to receive benefits from the MERS System to be covered; however, deferred vested retirees are ineligible for retiree medical coverage. All employees hired on or after July 1, 1995, will, upon retirement, receive full Board-paid health care premiums until they become eligible for reduced Social Security benefits, at which time the Board will continue the premium at the then existing rate level and the retiree will pay any annual premium increases until age 65 at which time coverage ceases. The Board funds the benefits on a pay-as-you-go basis. There are currently 87 contracts covering retirees and/or dependents receiving post-employment health care coverage paid for by the Board. For the years ended June 30, 2006 and 2005, the Board incurred premium expense of \$942,723 and \$804,637, respectively.

NOTE L--PURCHASE COMMITMENTS

The Board has a commitment to purchase a minimum of 140,000 net tons per year through 2008 of Western Coal from a supplier at a base contract price of \$21.60 (indexed quarterly) per ton at a heating value of 9,350 BTU's per pound. Of this commitment, 47,546 tons were received as of June 30, 2006, relating to the 2006 Great Lakes shipping season. The contract was extended through the end of the 2008 shipping season with a \$.50 per ton price reduction effective January 1, 2005.

NOTE M--CAPACITY AND ENERGY SALES AGREEMENT

Effective July 1, 1998, the Board entered into a seven (7) year agreement to sell unit capacity and related energy to a third party. The initial amount of capacity nominated by the Board was equal to forty (40) mega-watts. The amount of capacity nominated was modified each year for projected changes in the Board's native system load, plus existing off-system sales, plus projected changes in the rated capacity of the Board's generating units. During the years ended June 30, 2006 and 2005, the Board recorded \$704,187 and \$2,891,898 of revenue representing both capacity and energy sales under this agreement. This agreement expired on June 30, 2005.

NOTE N--PINEHILL LANDFILL SITE

The Board owns a Type III sanitary landfill site located in Negaunee Township, Michigan, which was used for the disposal of fly ash resulting from the burning of coal for the operation of the Shiras Steam Plant. The Board was notified by the Michigan Department of Natural Resources that the cell used at the landfill had resulted in degradations of the groundwaters located under the landfill. The Michigan Department of Environmental Quality (DEQ) approved the Board's feasibility study for the landfill. The Board subsequently submitted a Remedial Action Plan (RAP) for the site that was approved by the DEQ in February 1998. Based upon the approved RAP, the Board has recorded an estimated liability for the post-closure costs, which are expected to be limited to the annual costs relating to sampling and testing.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE O--RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages these risks in several manners.

The Board maintains coverage from commercial insurance companies as well as public entity risk pools and industry mutuals for a variety of risks including general and public officials liability, property, boiler machinery, fleet, inland marine, and workmen's compensation. The Board participates in public entity risk pools with other public utilities and various municipalities for coverage. These agreements allow for the pools to make additional assessments in order to make the pools self-sustaining. The Board is unable to provide an estimate of the amounts of additional assessments, if any, which may be required to make the pools self-sustaining. Certain other risks are borne by the Board, and the Board has established a Replacement-Risk Retention Fund (see Note B).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The Board estimates that any actual claims that are pending (see Note P below) or potential future claims, if any, will not have a material adverse effect on the Board's financial position, results of operations or cash flows and therefore the financial statements contain no provision for any such loss contingency.

NOTE P--EXTRAORDINARY ITEM

On May 15, 2003, the Marquette Board of Light and Power's hydro properties experienced a flood event caused by the failure of a dike at the Silver Lake dam. There was significant erosion along the Dead River and the earthen embankment to the south of the #3 (Tourist Park) dam abutment was washed away. Numerous board facilities were affected by the water and debris including the #2 Hydro Plant basement, the roads to #2 Hydro Plant and Penstock, the #3 Hydro Plant and substation, the river banks, and other facilities.

The Board was named as a defendant in lawsuits that claim the Board failed to maintain and operate the Tourist Park dam in a safe and reasonable manner which resulted in damage to property located downstream of the dam. On a hearing held on October 20, 2006, the Marquette County Circuit Court ruled that the Board, as a government entity whose primary purpose is not pecuniary profit, is immune to such lawsuits. It is not currently known whether the plaintiffs in these actions will appeal that ruling. The Board is insured in amounts that it believes are sufficient to cover any liability which ultimately may be found and deductibles would not be material to the Board. Accordingly, no provision for any liability has been made in the accompanying financial statements.

In addition, the Board has filed claims against several other parties as a result of the flood event.

OTHER FINANCIAL INFORMATION



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPA's
Michigan Association of CPA's

**REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION**

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

Our report on our audits of the basic financial statements of the Marquette Board of Light and Power appears on page three. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statements and schedules listed in the table of contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Marquette Board of Light and Power. Such information for the six years ended June 30 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2006



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OPERATING EXPENSES

MARQUETTE BOARD OF LIGHT AND POWER

		Year Ended June 30	
		2006	2005
PRODUCTION			
Steam Power Generation:			
Operation:			
Supervision and engineering	\$	78,609	\$ 80,142
Fuel		7,737,809	7,227,784
Steam expenses		998,612	878,664
Electric expenses		387,614	366,327
Other		287,222	218,353
		<u>9,489,866</u>	<u>8,771,270</u>
Maintenance:			
Supervision and engineering		55,260	68,205
Structures		108,237	72,186
Boiler plant		1,172,261	1,130,779
Electric plant		223,484	663,752
Other		5,511	9,909
		<u>1,564,753</u>	<u>1,944,831</u>
TOTAL STEAM POWER GENERATION		11,054,619	10,716,101
Peaking Unit:			
Operation:			
Fuel		85,795	1,138,746
Operation and maintenance		93,324	121,995
TOTAL PEAKING UNIT		179,119	1,260,741
Hydraulic:			
Operation:			
Supervision and engineering		13,413	19,064
Generation		7,451	5,664
Other		19,477	17,962
		<u>40,341</u>	<u>42,690</u>
Maintenance:			
Supervision and engineering		8,773	17,063
Structures		2,714	11,578
Reservoirs, dams, and waterways		47,005	48,506
Electric plant		19,865	32,040
Other		11,516	11,412
		<u>89,873</u>	<u>120,599</u>
TOTAL HYDRAULIC		130,214	163,289
TOTAL PRODUCTION		11,363,952	12,140,131

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2006	2005
PURCHASED POWER	\$ 1,488,238	\$ 2,435,030
TOTAL PRODUCTION AND PURCHASED POWER	12,852,190	14,575,161
 DISTRIBUTION AND TRANSMISSION		
Operation:		
Supervision and engineering	114,294	102,380
Lines	6,038	21,732
Street lighting and signal systems	2,743	1,240
Meters	82,504	97,095
Customer installation	51,902	44,922
Other	41,026	38,296
	298,507	305,665
 Maintenance:		
Supervision and engineering	100,886	93,769
Lines, structures, and station equipment	523,009	461,084
Line transformers	7,729	5,084
Street lighting and signal systems	56,196	58,815
Meters and other	29,967	21,697
	717,787	640,449
TOTAL DISTRIBUTION AND TRANSMISSION	1,016,294	946,114
 CUSTOMER ACCOUNTING		
Supervision	41,551	39,387
Meter reading	117,777	118,999
Billing and collection	318,181	290,831
Other	14,405	10,748
TOTAL CUSTOMER ACCOUNTING	491,914	459,965

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2006	2005
ADMINISTRATIVE AND GENERAL		
Salaries	\$ 320,230	\$ 383,005
Office supplies and expense	35,479	31,029
Professional services	127,339	69,547
Workers' compensation and insurance and direct payments	78,170	74,527
Fire, liability, and other insurance	348,408	329,880
Customer sales and safety relations	65,280	55,883
Employees' welfare and benefits:		
Social security	346,155	329,318
Medical insurance	1,770,051	1,623,948
Life insurance and long-term disability	31,969	53,468
Vacations, sick leave, and funeral leave	413,432	345,485
Retirement	457,251	361,920
Paid holidays	107,276	99,123
Longevity pay	15,502	16,174
Safety program	32,571	34,958
Maintenance	35,633	36,188
Other	175,118	132,828
TOTAL ADMINISTRATIVE AND GENERAL	4,359,864	3,977,281
PROVISION FOR DEPRECIATION		
Plant (excluding amounts charged elsewhere (2006 - \$117,050; 2005 - \$112,243)	3,094,271	3,079,092
CHARGES IN LIEU OF PROPERTY TAXES PAID TO MUNICIPALITY		
	<u>1,460,884</u>	<u>1,203,013</u>
	<u>\$23,275,417</u>	<u>\$24,240,626</u>

UTILITY PLANT IN SERVICE

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2006 (with comparative totals for 2005)

	ASSETS				ALLOWANCES FOR DEPRECIATION				NET VALUE June 30, 2006	NET VALUE June 30, 2005
	Balance at June 30, 2005	Additions	Retirement	Transfers	Balance at June 30, 2006	Balance at June 30, 2005	Provisions	Retirements	Balance at June 30, 2006	
HYDRAULIC PRODUCTION										
Land and land rights	\$ 85,146	\$ 3,103			\$ 88,249				\$ 88,249	\$ 85,146
License	406,213	21,168			427,381	13,506	\$ 13,540		\$ 13,506	413,875
Structures and improvements	273,686				273,686	\$ 174,116	3,117		177,233	96,453
Reservoirs, dams, and waterways	4,176,699	198,587			4,375,286	1,690,975	75,416		1,766,391	2,608,895
Waterwheels, turbine, and generators	587,246				587,246	506,911	17,072		506,911	80,335
Roads, railways, and bridges	53,482				53,482	39,840	629		40,469	13,013
Accessory electrical equipment	348,859				348,859	338,266	2,141		340,407	8,452
Miscellaneous	1,225				1,225	1,225			1,225	0
	5,932,556	222,858	\$ 0	\$ 0	6,155,414	2,764,839	111,915	\$ 0	2,846,142	3,309,272
INTERNAL COMBUSTION										
ENGINE PRODUCTION										
Structures and improvements	721,144				721,144	608,108	11,754		619,862	101,282
Fuel holders, producers, and accessories	207,002				207,002	87,271	3,461		90,732	116,270
Prime movers	274,836				274,836					274,836
Accessory electrical equipment	188,075	17,963			206,038	181,421	350		181,771	24,267
Miscellaneous	43,949				43,949	23,428	1,026		24,454	19,495
	1,435,006	17,963	0	0	1,452,969	900,228	16,591	0	916,819	536,150
TURBINE COMBUSTION										
Structures and improvements	300,285				300,285	261,572	9,999		271,571	28,714
Prime movers	163,024				163,024	186,642	14,589		201,231	(38,207)
Generators	3,476,159				3,476,159	3,030,806	115,756		3,146,562	329,597
Accessory electrical equipment	551,615				551,615	357,862	20,911		378,773	172,842
	4,491,083	0	0	0	4,491,083	3,836,882	161,255	0	3,998,137	492,946
STEAM PRODUCTION										
Land and land rights	951,797				951,797					951,797
Structures and improvements	8,493,516	1,948			8,495,464	6,247,856	238,667		6,486,523	2,008,941
Boiler plant and equipment	27,901,290	597,855	226,364		28,272,781	20,600,064	812,190	226,364	21,185,890	7,086,891
Turbogenerator units	11,057,932	8,450			11,066,382	8,731,440	307,523		9,038,963	2,027,419
Accessory electric equipment	6,206,342	17,963			6,224,305	4,617,311	185,427		4,802,738	1,421,567
Steam pollution control equipment	10,585,230				10,585,230	8,847,398	205,078		9,052,476	1,532,754
Miscellaneous power plant equipment	1,012,985				1,012,985	704,211	31,378		735,589	277,396
	66,209,092	626,216	226,364	0	66,608,944	49,748,280	1,780,263	226,364	51,302,179	15,306,765

MARQUETTE BOARD OF LIGHT AND POWER

	ASSETS				ALLOWANCES FOR DEPRECIATION						
	Balance at June 30, 2005	Additions	Retirement	Transfers	Balance at June 30, 2006	Balance at June 30, 2005	Provisions	Retirements	Balance at June 30, 2006	NET VALUE June 30, 2006	NET VALUE June 30, 2005
TRANSMISSION LINE PROJECT											
Station equipment	\$ 1,485,646	\$ 35,269			\$ 1,520,915	\$ 839,988	\$ 36,487		\$ 876,475	\$ 644,440	\$ 645,658
Poles and fixtures	344,115	13,010			357,125	263,222	10,561		273,783	83,342	80,893
Overhead conductors and devices	280,905	77,794			358,699	152,117	8,665		160,782	197,917	128,788
	2,110,666	126,073	\$ 0	\$ 0	2,236,739	1,255,327	55,713	\$ 0	1,311,040	925,699	855,339
GENERAL											
Structures and improvements	666,560	20,100			686,660	585,592	20,983		606,575	80,085	80,968
Office furniture and equipment	861,511	245,687	174,967		932,231	565,155	89,098	174,967	479,286	452,945	296,356
Transportation equipment	1,482,346	44,587			1,526,933	801,635	111,565		913,200	613,733	680,711
Tools and work equipment	107,728				107,728	107,438			107,438	290	290
Laboratory equipment	108,894				108,894	89,669	6,512		96,181	12,713	19,225
Power operated equipment	547,518				547,518	536,161	5,486		541,647	5,871	11,357
Communication equipment	171,361	65,053			236,414	104,664	11,886		116,550	119,864	66,697
Miscellaneous equipment	55,030	42,973			98,003	22,067	9,295		31,362	66,641	32,963
	4,000,948	418,400	174,967	0	4,244,381	2,812,381	254,825	174,967	2,892,239	1,352,142	1,188,567
DISTRIBUTION											
Land and land rights	83,027				83,027					83,027	83,027
Substation equipment	2,939,467	53,229			2,992,696	1,683,536	135,577		1,819,113	1,173,583	1,255,931
Poles, towers, and fixtures	4,632,474	166,842	25,852		4,773,464	1,975,989	110,036	15,574	2,070,451	2,703,013	2,656,485
Overhead conductors and devices	6,503,717	302,721	22,118		6,784,320	3,130,456	163,951	22,663	3,271,744	3,512,576	3,373,261
Underground conduit	478,600	12,358			490,958	40,021	14,302		54,323	436,635	438,579
Underground conductors and devices	4,185,736	154,210			4,339,946	661,478	124,839		786,317	3,553,629	3,524,258
Line transformers	4,523,013	191,891	40,000		4,674,904	1,989,658	115,533	26,719	2,078,472	2,596,432	2,533,355
Services	1,842,449	52,624			1,895,073	844,700	47,463		892,163	1,002,910	997,749
Meters	1,226,594	88,585	20,532		1,294,647	482,526	33,573	20,531	495,568	799,079	744,068
Installation on customers' premises	22,417				22,417	22,037	217		22,254	163	380
Structures and improvements	141,222				141,222	90,460	4,703		95,163	46,059	50,762
Street lighting and signal systems	2,603,287	32,416			2,635,703	1,334,150	80,565		1,414,715	1,220,988	1,269,137
	29,182,003	1,054,876	108,502	0	30,128,377	12,255,011	830,759	85,487	13,000,283	17,128,094	16,926,992
	\$ 113,361,354	\$ 2,466,386	\$ 509,833	\$ 0	\$ 115,317,907	\$ 73,572,948	\$ 3,211,321	\$ 486,818	\$ 76,297,451	\$ 39,020,456	\$ 39,788,406

COMPARATIVE OPERATING STATISTICS

MARQUETTE OF BOARD OF LIGHT AND POWER

	Year Ended June 30		Megawatt Hours		Revenues/Expenses	
			Year Ended June 30		Megawatt Hours	
	2006	2005	2006	2005	2006	2005
OPERATING REVENUES						
Electricity:						
Residential:						
Urban	\$ 3,766,764	\$ 3,605,623	48,712	47,229	\$77.33	\$76.34
Rural	3,978,280	3,765,158	50,911	48,589	78.14	77.49
Commercial:						
Urban	3,145,168	3,053,047	43,987	42,681	71.50	71.53
Rural	868,903	812,150	11,088	10,595	78.36	76.65
Power:						
Urban	2,694,667	2,420,341	44,201	41,007	60.96	59.02
Rural	2,308,816	2,133,320	37,699	35,838	61.24	59.53
Other public authorities:						
Urban	3,299,447	3,135,714	55,971	54,206	58.95	57.85
Rural	331,152	309,143	4,775	4,507	69.35	68.59
Sales for resale:						
Alger-Delta Cooperative	854,500	805,367	15,934	15,517	53.63	51.90
Wisconsin Electric						
Power Company	704,187	2,891,898	9,086	19,908	77.50	145.26
Upper Peninsula Power Co.						
Street lighting:						
Urban	248,087	232,813	2,068	1,954	119.96	119.15
Rural	82,931	83,595	674	665	123.04	125.71
Other Municipal Depts.	705,985	686,200	10,240	10,108	68.94	67.89
	22,988,887	23,934,369	335,346	332,804	68.55	71.92
Rent and other	599,763	646,651			1.79	1.94
	23,588,650	24,581,020			70.34	73.86
OPERATING EXPENSE	23,275,417	24,240,626			69.41	72.83
NET OPERATING INCOME	313,233	340,394			0.93	1.03
Other income	762,089	670,047			2.27	2.01
	1,075,322	1,010,441			3.21	3.04
Other deductions	379,215	502,165			1.13	1.51
NET INCOME	\$ 696,107	\$ 508,276			\$ 2.08	\$ 1.53

COMPARATIVE OPERATING STATISTICS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Megawatt Hours		Percentage	
	Year Ended June 30		Year Ended June 30	
	2006	2005	2006	2005
ELECTRICITY PRODUCED				
Delivered to customers	335,346	332,804	89.57%	88.80%
Consumed in operations	27,252	25,884	7.28%	6.90%
Unaccounted for	11,810	16,110	3.15%	4.30%
	<u>374,408</u>	<u>374,798</u>	<u>100.00%</u>	<u>100.00%</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30					
	2006	2005	2004	2003	2002	2001
MEGAWATT HOURS						
Power use:						
Residential	99,624	95,817	96,512	97,492	92,162	90,108
Commercial	55,075	53,276	53,855	56,164	55,709	56,299
Power	81,900	76,845	76,642	74,056	65,973	64,395
Other public authorities	60,746	58,713	57,465	57,813	56,723	52,873
Alger Delta Co-op	15,934	15,517	15,735	16,197	14,648	14,183
Upper Peninsula Power Co.					108	
Wisconsin Electric Power Co.	9,086	19,908	29,121	43,986	5,042	13,604
Street lighting	2,741	2,620	2,566	2,548	2,482	2,459
Other municipal departments	10,240	10,108	10,543	11,224	10,985	10,323
	<u>335,346</u>	<u>332,804</u>	<u>342,439</u>	<u>359,480</u>	<u>303,832</u>	<u>304,244</u>
Gross system peak demand (MW)	65.5	63.7	60.4	62.2	58.9	54.4
Plant system capability (MW)	105.1	105.1	105.1	105.1	105.1	105.1
FINANCIAL DATA (thousands)						
Revenues:						
Urban	\$ 12,906	\$ 12,215	\$ 11,486	\$ 11,388	\$ 11,106	\$ 10,692
Rural	7,487	7,020	6,711	6,417	6,184	5,939
Street lighting	331	316	302	299	299	301
Sale for resale:						
Alger Delta Co-op	855	805	768	762	710	664
Upper Peninsula Power Co.					14	
Wisconsin Electric Power Co.	704	2,892	3,098	4,720	1,298	1,851
Other municipal departments	706	686	675	696	703	661
Other	600	647	739	589	574	550
	<u>23,589</u>	<u>24,581</u>	<u>23,779</u>	<u>24,871</u>	<u>20,888</u>	<u>20,658</u>
Expenses:						
Operating	18,720	19,959	16,765	17,438	13,734	14,205
Charges in lieu of property taxes paid to municipality	1,461	1,203	1,241	1,241	1,248	1,266
Provisions for depreciation and amortization	3,094	3,079	3,094	3,103	3,020	2,881
Interest and amortization, less other income	382	(168)	146	92	273	162
	<u>23,657</u>	<u>24,073</u>	<u>21,246</u>	<u>21,874</u>	<u>18,275</u>	<u>18,514</u>
Net income before extraordinary item	696	508	2,533	2,998	2,613	2,144
Extraordinary item				(122)	(550)	
NET INCOME	<u>\$ 696</u>	<u>\$ 508</u>	<u>\$ 2,533</u>	<u>\$ 2,876</u>	<u>\$ 2,063</u>	<u>\$ 2,144</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Financial (thousands):						
Net plant in service and construction in progress	\$39,020	\$39,788	\$40,787	\$42,618	\$43,076	\$43,649
Bonds outstanding	\$ 8,144	\$11,929	\$15,605	\$19,187	\$22,467	\$26,878

SUPPLEMENTAL INFORMATION

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

MARQUETTE BOARD OF LIGHT AND POWER

Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2000	\$ 20,201,860	\$ 21,432,284	\$ 1,230,424	94%	\$ 3,585,217	34%
2001	\$ 21,249,595	\$ 22,508,331	\$ 1,258,736	94%	\$ 3,720,528	34%
2002	\$ 21,204,453	\$ 23,824,315	\$ 2,619,862	89%	\$ 3,577,979	73%
2003	\$ 21,931,156	\$ 26,001,957	\$ 4,070,801	84%	\$ 3,911,098	104%
2004	\$ 22,438,510	\$ 27,151,787	\$ 4,713,277	83%	\$ 3,599,278	131%
2005	\$ 22,841,639	\$ 28,767,850	\$ 5,926,211	79%	\$ 3,522,833	168%

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, compounded annually, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.